RB
RESTAURANT BUSINESS
JANUARY 20, 1992
A BILL PUBLICATION

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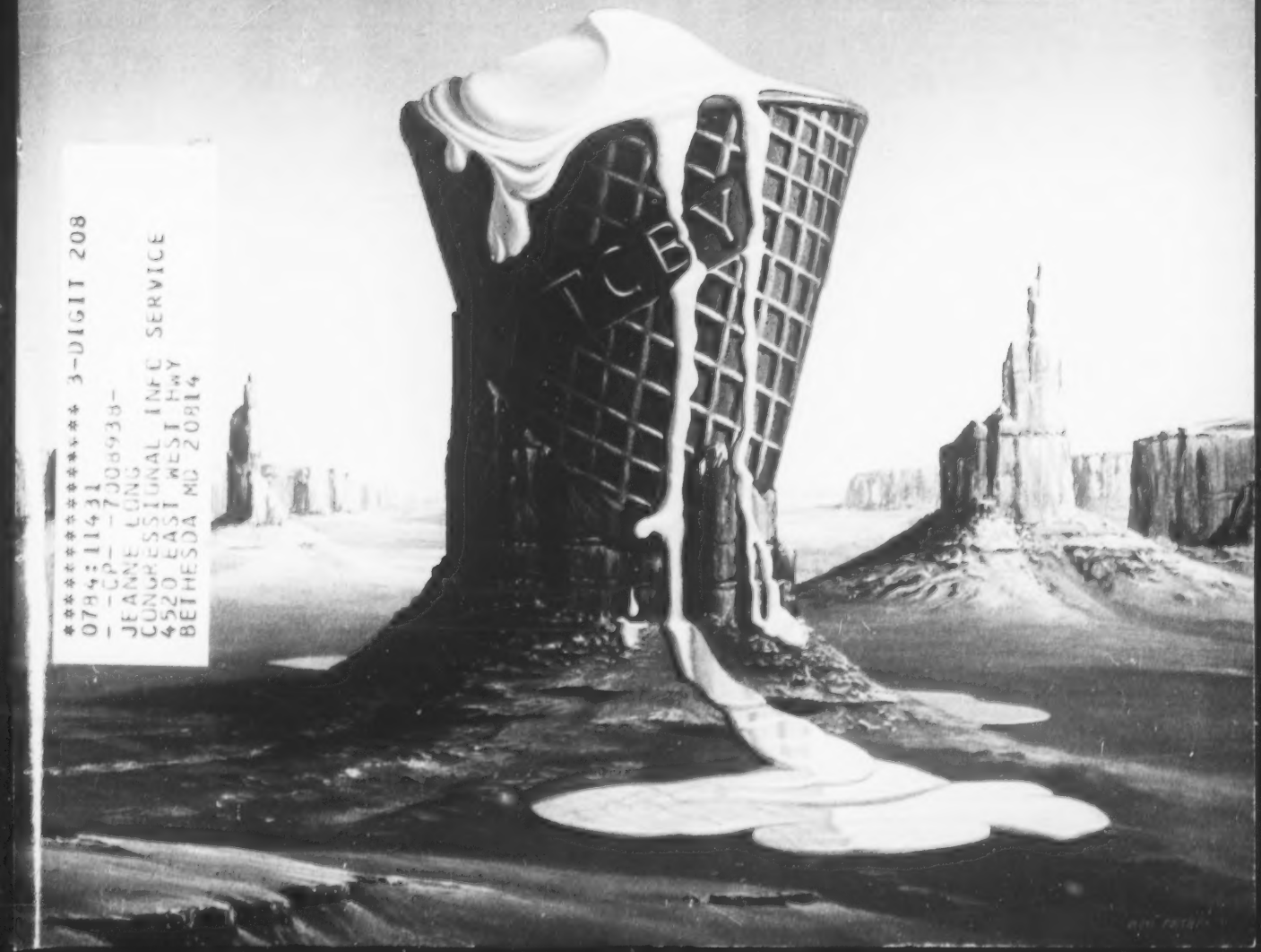

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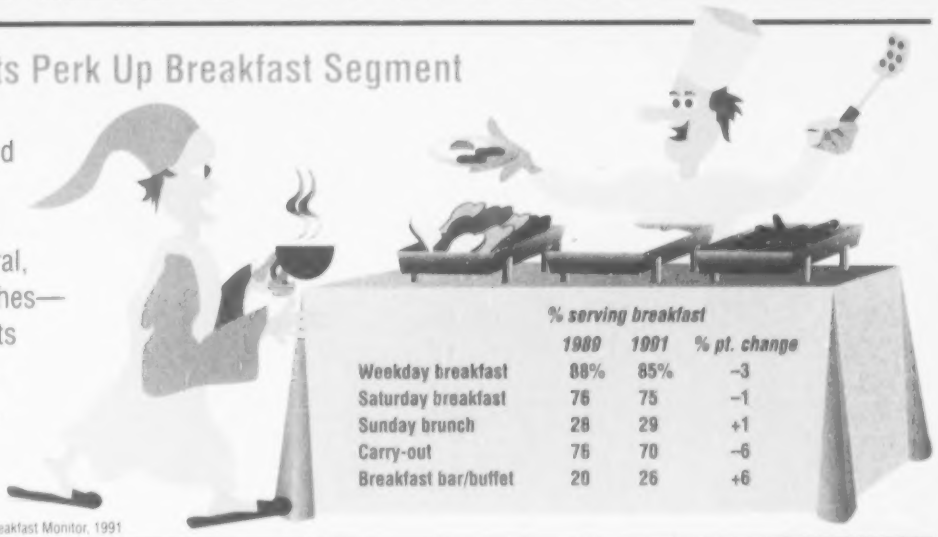
BUSINESS BAROMETER

Brunches, Buffets Perk Up Breakfast Segment

While breakfasts served by a cross-section of restaurant operators show a downward spiral, specialty breakfast niches—mainly breakfast buffets and Sunday brunches—are on the upswing.



	% serving breakfast		
	1989	1991	% pt. change
Weekday breakfast	88%	85%	–3
Saturday breakfast	76	75	–1
Sunday brunch	28	29	+1
Carry-out	76	70	–6
Breakfast bar/buffet	20	26	+6

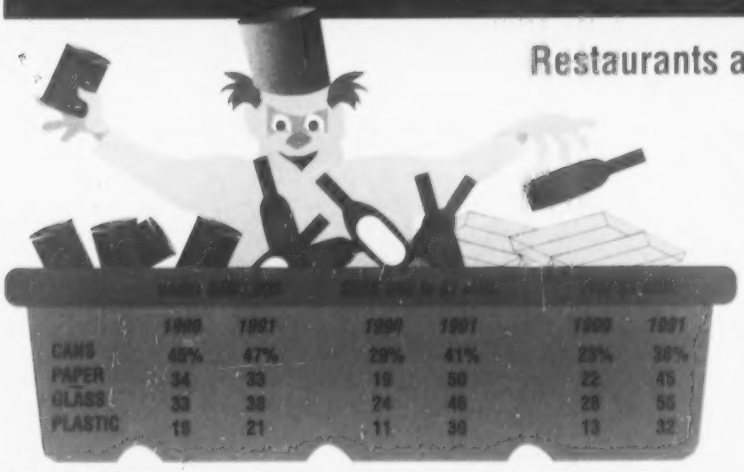
Source: RBI Foodservice Research Center Breakfast Monitor, 1991

Beverages of Choice: Bottled Water, Soft Drinks, Fruit Juices

Bottled water is the fastest growing beverage category, followed by soft drinks and fruit drinks and juices. On the wane: Tea, milk, and alcohol.

U.S. Beverage Consumption (millions of gallons)			
	1985	1991	% change
Bottled water (6%)	492	2,510	+510%
Carbonated soft drinks (33%)	9,549	13,391	+40
Fruit drinks/juices (7%)	2,462	2,845	+16
Coffee (13%)	5,777	6,342	+10
Powdered drinks (3%)	1,308	1,371	+5
Alcoholic beverages (17%)	7,506	6,833	–9
Milk (13%)	6,288	5,171	–18
Tea (4%)	2,615	1,583	–39

Source: Business Communications Co. Inc., Norwalk, CT



Restaurants and Recycling: Definite Gains

Tableservice restaurants with sales of more than $500,000 have substantially stepped up their recycling efforts in the last year. Smaller operators were more previously involved so their recycling increases were not as dramatic.

	1990	1991	1990	1991	1990	1991
CANS	45%	47%	29%	41%	23%	36%
PAPER	34	33	19	50	22	45
GLASS	33	36	24	46	28	55
PLASTIC	19	21	11	30	13	32

Source: National Restaurant Association

Charts by Peter K. Niceberg

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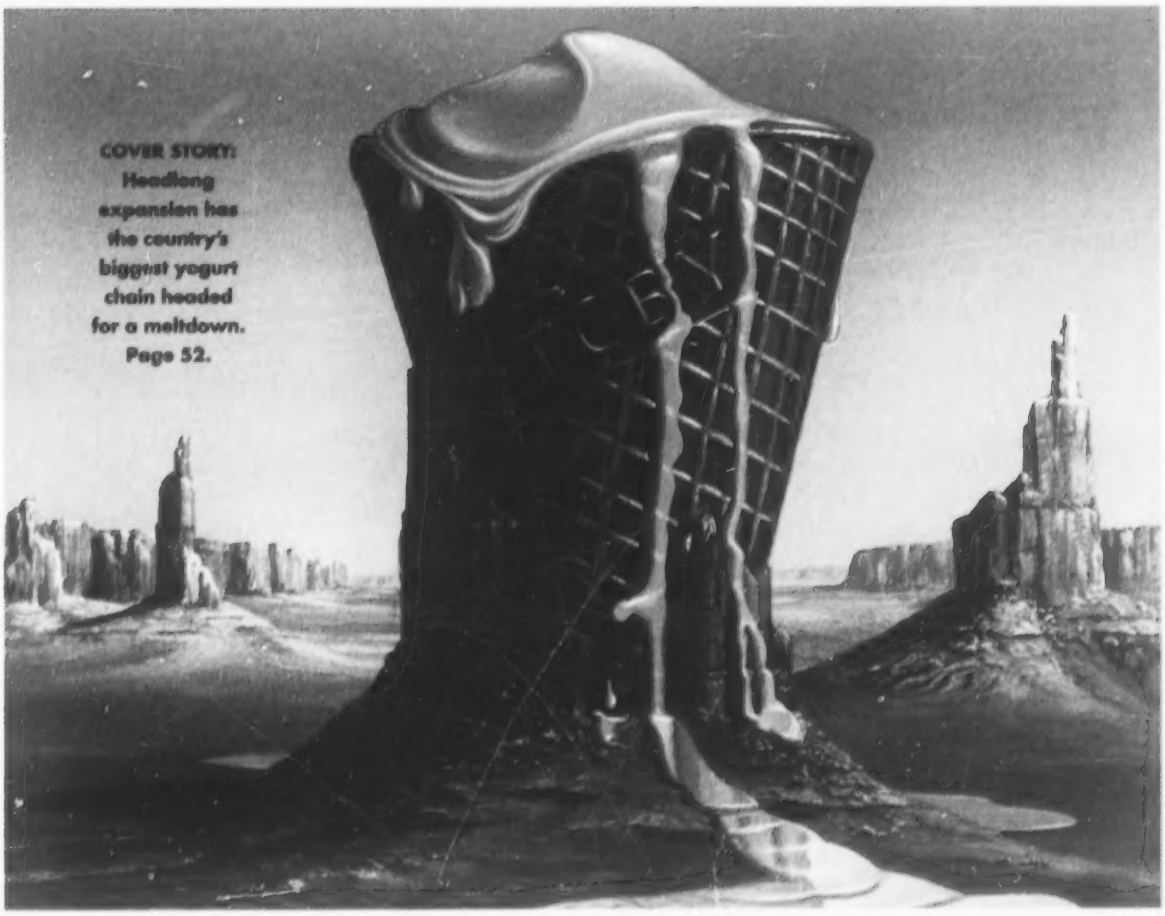

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COVER STORY

MELTDOWN TCBY. The Country's Best Yogurt was a rising star among fledgling chains. But it rose too far too fast: Underperforming units are closing; discontented franchisees are suing; and angry stockholders are getting burned. Is management guilty of negligence—or fraud? 52

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Cover illustration by Bob Peters

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FOOD AND BEVERAGE

MENU IDEAS LITTLE VITTLES. Today's pint-sized patrons aren't just little and cute and say the darndest things, they're also highly influential. And most important, they like to eat out with their parents. So, is your children's menu up to pace? Do you even have one? Are you ignoring an entire market simply because they can't reach the table? 75

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Reprints of the **1991 RESTAURANT GROWTH INDEX** and **1991 MAJOR FORCES IN FRANCHISING** are available for $7 per copy. Direct inquiries to Editor Scott Allmendinger, *Restaurant Business*, 633 Third Ave., New York, NY 10017.

IN THE NEXT ISSUE

MARKET SEGMENT REPORT SUPERMARKETS. With increasing amounts of innovative prepared foods and sitdown delis, supermarkets continue to make inroads on foodservice. They're a segment to watch; it's easier for supermarket operators to add full-service than restaurateurs might think.

MENU IDEAS BEEF. Big portions are popular, but so are little ones. Consumers want as many options as possible, so anything goes with beef entrees these days.

DRAFTS, CARAFES WISE WINE PRICING. In the matter of wine pricing, operators must walk a tightrope between overvaluing the product and selling it short. *RB* examines case histories of operators with successful wine pricing strategies.

SPECIAL REPORT WORKERS COMP. The high cost of workers comp. has become a debilitating budget problem. Operators need to take the necessary precautions to make sure their establishments are safe places to work. Implementing safety guidelines and using common sense are just two ways to ensure fewer lawsuits.

TEST KITCHEN:
Kid stuff, p. 75.

Make A Small Fortune

HOW DO YOU MAKE A SMALL FORTUNE? Start with a large fortune and get into the restaurant business, goes the old joke. True, but not very funny, say an increasing number of franchisees.

Walter Perry, who bought into the TCBY system in 1989, managed to make a small fortune nonexistent (see cover story by Keith Dunnavant, p. 52). Perry says he had help. He says TCBY lied to him about sales projections, and he's suing them for fraud.

Regardless of how the court settles the case, franchisees are saying that TCBY is guilty of trying to grow at their expense. By opening units at $25,000 a pop, plus selling product, equipment, and financing at a premium, the Hickingbothams set up a revenue torrent that drowned out a lot of worries. Unit volumes down? Competition moving in? Open more stores, open more stores. Don't close the floodgates yet—the water will come from somewhere. It didn't.

You could charge, as Perry does, that TCBY was intentionally built as a house of cards if only the Hickingbothams had had enough sense to get out at the top. As it is, Frank Hickingbotham saw his own stock devalued by $140 million. Talk about making a fortune small.

The Perrys of TCBY aren't the only franchise community up in arms. The Association of Kentucky Fried Chicken Franchisees Inc. is suing PepsiCo "over its heavy-handed and dictatorial attempts to change franchise agreements unilaterally," says president William Allen. "The KFC system was built on a partnership between the company and franchisees. That partnership no longer exists."

Where's the rub? It's in trying to decide whether 'tis nobler in the mind for franchisees to make money, or their corporate parents instead. Partnerships, it seems, are tougher to forge when customers are dining on company profits. Companies that don't respond are shortchanging franchisees through inaction (à la TCBY). Companies that do respond often ask them to ante up out of their own profits. Times have changed since Ray Kroc got rich by enriching franchisees.

Not that franchisees are averse to investing in their own future, mind you. If they did, they wouldn't *be* franchisees. They want more say, and who can blame them? More to the point, who can ignore them, as their swollen ranks enhance their leverage?

Can partnership be restored in 1992, or will the recession mean franchise relations will chafe until raw? We'll get back to you.

Scott Allmendinger
Editor

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MONEY IN THE BANK

NOT ON THE SHELF

Cost-control is about as important to a restaurant owner as what's on the menu tonight. So it's somewhat surprising how few operators—especially independent ones—use technology to help bolster their bottom line. Only 38% of restaurants with sales of $500,000 or less annually use personal computers, according to the National Restaurant Association. In contrast, 75% of those with $1 million in sales or more do use them.

More surprising still is how little the technology costs. For not much more than the price of a new mixer or steamer—about $3,000 can buy a pretty good PC and software—all but the most cash-strapped restaurateurs can be up and running on a cost-control system *designed* to make them more money.

Computerized inventory control is the key. And it means more than just tracking what's on the shelves. It offers food cost analysis, guards against overordering, and tells you what's selling and what's not. In short, it provides the edge you need to boost profitability.

"If I was running under the old manual system, I might not have made it," says Ken Leveille, president of My Brother's Pub, a 125-seat independent restaurant in Pawtucket, RI, with sales of about $500,000 a year. "I wouldn't know where to cut and what to cut."

Leveille admits to a twinge of computerphobia when he first began using a computerized inventory control program back in 1990. He started with liquor operations to learn how a software package could deal with about 100 items. Leveille pulled sales information from the $29,000 computerized POS terminals he'd installed in 1988 and manually typed the data into the computer. "At first, it was an aggravation. I did inventory on Sunday night and spent Monday morning entering the information into the computer," he explains. "But once I entered the inventory, the information was amazing. I was flabbergasted at how wonderfully the program performed inventory control."

Armed with hard information, Leveille soon discovered that he had almost twice as much inventory as the pub needed. "Normally, I stocked $9,000 worth of liquor inventory," he recalls. "After looking at the numbers on the computer, I cut it down to $5,000. I can play it real close now. I mean, it's easy to order too much, but the sign of a good manager is running at a bare minimum."

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BY RUSS LOCKWOOD

PHOTOGRAPH BY PATRICK J. O'CONNOR

IBM's Touchscreen Order Entry Systems

It's the end of the month. You've just gone over your figures for the third time and they refuse to budge. You're thinking, "there must be a way to speed up customer service, slice labor costs and carve out more profits."

There is. In fact, it can all be accomplished with the touch of a finger.

No, we're not suggesting magic. We're suggesting IBM's family of restaurant point-of-sale solutions: IBM's new customer order entry touchscreen display, the companion touchscreen terminal, a traditional preset keyboard and a portable hand-held order entry unit.

You'll find them as easy to use as they are to train people on. Once in place, they can help you set new speed records for bringing new employees up to speed.

Take IBM's touchscreen, for instance. Now, you'll be able to present your menu on the advanced LCD touchscreen display and change it anytime you want, instantly.

Your customers will be able to preview your menu and order by themselves,

simply by touching the display. To make things even easier, you can use icons, or pictures, to represent menu items. Each order then goes directly into your kitchen. So whether your customers are inside or driving through, you'll be able to serve them considerably faster.

What that means is, not only will you be able to keep your customers more satisfied.

You'll be able to satisfy more customers.

The benefits don't stop there, though. They continue into your back office, where every order is captured in your computer. Including what was ordered, what time it was ordered and what the total was. All very valuable information.

Collectively, an IBM quick service solution can help you control your cash intake better and determine when you're busiest or slowest. That will help you schedule your food preparation and labor accordingly.

You'll also be able to keep better track of your inventory and orders. So you can minimize waste.

The bottom line? Your bottom line will start to look much more appealing to you.

If you'd like to add these capabilities to your plate, contact IBM. Together with our Business Partners, we'll design the system to meet your particular quick service needs, from planning to installation to training and support.

So that, come the end of each day, you'll finally begin to receive your just desserts.

To learn more, simply call us at 1 800 IBM-6676, ext. 923, or send in the coupon below.

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Gebhardt put an extra $50,000 of inventory to work for Cattlemen's Restaurants.

As Leveille discovered, gut instincts alone can't fight a recession. A number-crunching computer is an efficient weapon to slash costs and battle narrowing margins. A setup can be as simple as a personal computer in the back office or as elaborate as a network of computers and POS terminals stretching between dining room, bar, kitchen, and office.

BASIC TOOLS. For the small independent restaurateur, a personal computer and inexpensive software make sense. If you already own a PC with a hard drive, then you've got the basic tools. If not, a capable PC (at least a 286 system with 1MB of memory and an 80MB hard drive is recommended) is available in specialty stores, mass retailers, and by mail-order for under $1,500. Add $250 for a 24-pin dot matrix printer and you're all set.

Software costs range from $1,500 to $15,000. The more expensive programs automate tasks to a greater extent and add features, for example, nutrition analysis, general ledger accounting, redefined recipes, catering scheduling, multi-location inventory, and central commissary management. The smaller the restaurant, the lesser the need for such bells and whistles. The larger the business and the more locations, the greater the need for more features.

Some vendors offer an all-in-one package. This may increase your up-front cost, but it also gives you an entire set of tools. Other vendors offer a series of individual, interlocking modules. You pick what you want and can afford, and add modules whenever you gain the cash and confidence to further computerize your operations.

At the simplest level, inventory control programs give you a precise count of what's on the back room shelves. When you receive a delivery, you type in the invoice information—the better programs even keep track of the suppliers. When tracking inventory for requisitions, you type in what's been used already. All programs distinguish between pounds, ounces, bottles, cans, and other units of measure. You can even add in labor costs.

The programs also allow you to separate out batches and other processing. For example, a quantity of meat can be distributed among a number of entrees or the ingredients needed to create a vat of sauce can also be tracked.

It's not automatic or foolproof. Accuracy depends on the recipe data, which means you must enter all ingredients used in your recipes. When you sell a menu item, the program cannot keep accurate track of inventory unless it knows the ingredients.

As you use the program and practice inventory control, you'll find the need for less stock on the shelves. With perishables, that reduces spoilage. With other items, it means less cash outlay for stocking shelves and more cash in the bank.

Jeff Gebhardt, director of management information systems for Cattlemen's Restaurants, a 10-unit chain based in Santa Rosa, CA, found such savings. After instituting a computerized inventory control system at the headquarters commissary, he was able to pare food and liquor inventories by about 13%. That meant putting about $50,000 to work instead of languishing on the shelves.

In addition, the physical inventory process was reduced from three days to one because all the information was available before setting foot in the warehouse. Cattlemen's was also able to reduce its commissary staff by one full-time warehouse worker and one part-time accounting assistant, piling up another $40,000 in yearly savings. "We brought in inventory management software to allow ready access to information on a timely basis at the stores and headquarters," says Gebhardt. "That's what we got."

The combination of recipes and invoice information also provides another tangible benefit—actual food costs. Experienced chefs can estimate entree costs reasonably well. But, with all the collateral data on-line, you can calculate the cost to the penny—including hard-to-estimate items such as spices.

"I used to price by gut feeling," says Michael Stemmer, manager of the 80-seat 16th Street Bar and Grill in Philadelphia. "Now, I chart my food costs and get precise numbers. I get profitability statements on a daily basis at a touch of my finger."

Still a computer novice, Stemmer is already seeing results from the system. He's found that computerizing the recipe and inventory process keeps food costs to 27.2% of the price of its Mediterranean cuisine, helping the $1.3 million-a-year restaurant stay on sound financial footing. "I don't want to tag a dollar amount to the savings, but I'm more aware of prices for chicken, pasta, and even cleaning solutions," says Stemmer. "It helps with menu prices and catches pricing mistakes up front.

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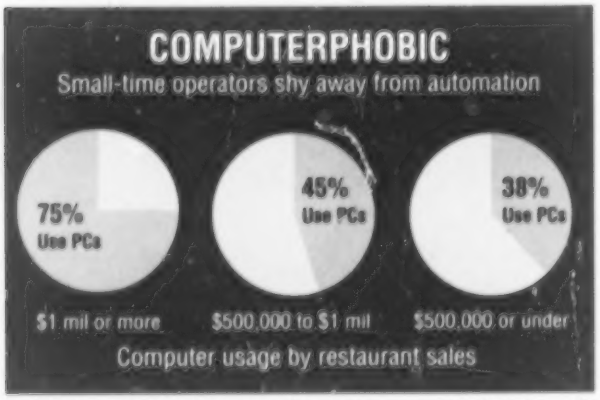
PHOTOGRAPH BY ROBERT HOUSEHOLT

It's information I didn't have before."

This adds up to profits. If you get a handle on costs, you can set your prices accordingly. Along the way, you'll discover menu items that don't offer a suitable return. Then, you decide whether to raise prices or trim portions—something you can experiment with to find a happy medium. You can also model "what-if" scenarios.

THE CATCH. Is there a downside? You bet. It's called discipline. The maxim "garbage in-garbage out" goes double for computers, only it might better be described as "nothing in-nothing out." If you don't keep up with changes in inventory, such as entering invoices, product cost, and daily sales, then you won't gain the full benefits.

Recipes take the longest time because most restaurants don't have them written down. If you can't precisely state the ingredients used, your calculations for food costs and inventory levels are also going to be flawed. According to Gebhardt of Cattlemen's, entering several hundred recipes required approximately 120 man-hours. The 16th Street Bar and Grill's Stemmer reports 200 different recipes needed about 30 hours of data entry.



"Initially, it's a lot of legwork and takes a lot of time," Stemmer relates. "Our chef still hasn't included everything, particularly the batch recipes."

But you're not through yet. The data must be updated on a weekly, preferably daily, basis—including every pinch of spice. Stemmer says data updating takes an assistant about an hour and a half per day. Leveille from My Brother's Pub notes it takes him about 45 minutes per day to update his 700-item inventory.

There is an easier way to do it. Some programs offer an automatic polling function that sends the day's sales—as rung up on POS terminals—directly to the computer. Not only will this save data entry time, but it will also eliminate typos. "It's my last big step," Leveille says of the $1,500 cost for the software and cabling. "But with tough economic times, it's tough to justify."

As with any new product, give yourself and your employees time to study and understand it. Although learning the rudiments takes an afternoon, mastering it will take a couple of months.

"Not everybody's a rocket scientist," cautions Phiilip Mantas, manager of the 450-seat Ponzio's Restaurant and Bake Shoppe in Cherry Hill, NJ. Although the inventory control software is in place, the computer is used mainly for payroll and general ledger accounting at this restaurant with $1.3 million in sales. "We just don't have the time to devote to administrative things. We'll continue to do inventory manually, although we can see the advantages in menu costing and tying in the computer to POS terminals," he adds.

And training time is important. Gebhardt ran the training at the individual restaurants when he rolled out the computerized inventory programs. "Initially, we separated out the half-dozen essentials, such as invoices, sales, and day-to-day inventory tracking," he details. "Actual training took four days per location, with the manager, assistant manager, and bookkeeper present."

"Many of them had no previous experience with computers and some bordered on the computerphobic, but as they grew comfortable with the program, they made good use of it," Gebhardt relates. It took about six months of use to become proficient with the software and take full advantage of the data-crunching capability to analyze day-to-day operations.

There are various training alternatives. Some companies send trainers to your restaurant. The benefit is that an expert walks you through the program. But, the cost can be high. One company charges $500 per day plus "reasonable" travel, lodging, and meal expenses.

The best way to learn is by doing. So, often you'd be better off using the program daily and making a telephone call to technical support if you're stuck on a particular feature.

Some software can be programmed to nag you into efficiency. When the program hits a predetermined minimum, it will prompt you to reorder, usually listing the supplier as well. The program provides either an established purchase price or a bid price per item, lists the number of items, calculates the total price, and assigns a purchase-order number. Some programs even print out the purchase order.

With that kind of information, ordering is swift and easy. "I do all my ordering through my inventory report," explains Leveille. "I use another program to store supplier names and phone numbers. Within an hour, I'm done for the week."

Better yet, you can track prices and orders, building up a data base of purchases showing item pricing by supplier and time. With this hard data on general prices, seasonal prices, significant price increases, and supplier bid prices, you can select the best buys, anticipate increased and decreased cash flow, and catch supplier errors. Supplemented with sales information, you can see the mix of menu item sales showing the contribution of each meal to your dollar volume and how price changes can turn low-profit items into high-profit or no-profit items. That's the sort of bottom-line information you need to stay competitive and profitable.

"The economy still isn't great and the outlook is not wonderful," warns Cattlemen's Gebhardt. "There comes a time when costs can't be passed along to the customer. Some cost control element must be put in place."

That element is a computerized system. With hard data in hand, you can balance inventory, food costs, and cash flow with greater accuracy and speed than by eyeballing the shelves and cash register. It does demand an investment in hardware, software, and time, but the reward is controlling costs, spotting pricing and sales trends, and putting money in the bank. **RB**